Economies and Diseconomies of Scale in the Airline Industry

This presentation explores how economies and diseconomies of scale operate using the airline industry as a case study, evaluating their impact on cost, efficiency, and firm performance.

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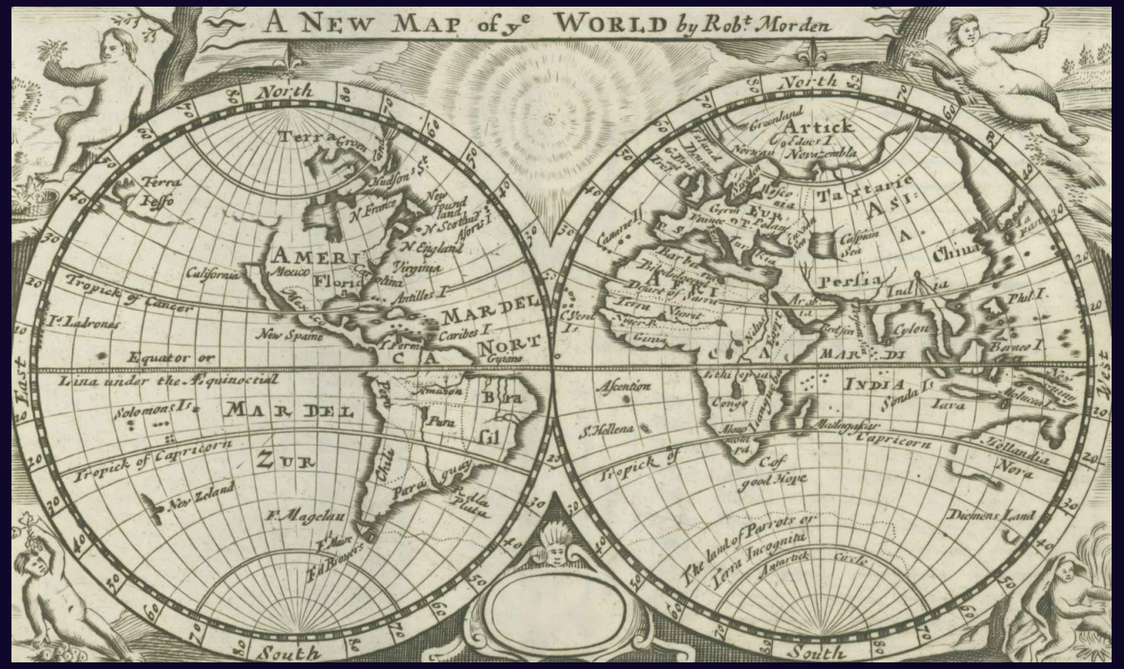
Introduction to Economies and Diseconomies of Scale

Economies of Scale: Average cost per unit decreases as production increases.

Diseconomies of Scale: Average costs increase when a firm grows too large, leading to inefficiencies.

This analysis focuses on the airline industry, featuring Emirates and SriLankan Airlines.



Key Types of Economies of Scale

Technical Economies

Efficiencies from advanced technology and equipment.

Managerial Economies

Specialization and expertise in management.

Financial Economies

Better borrowing terms and credit access.

Marketing Economies

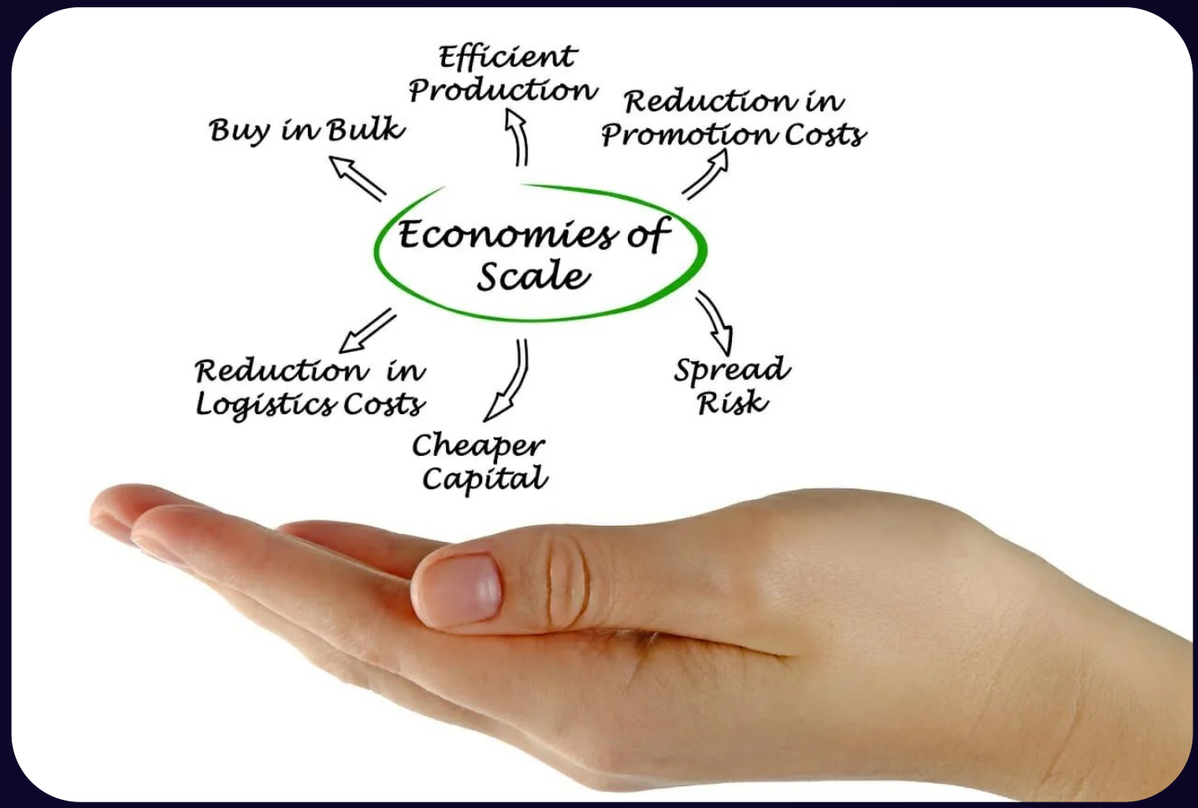
Spreading advertising costs over larger sales.

Purchasing Economies

Bulk buying discounts on inputs.

Risk-Bearing Economies

Diversification to mitigate risks.



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Economies of Scale in Emirates Airlines

Technical

Large, fuel-efficient aircraft like the A380 lower cost per seat.

Managerial

Specialist teams enhance operations across logistics, safety, and HR.

Financial

Strong creditworthiness secures favorable loan terms.

Marketing

Global campaigns spread advertising costs effectively.

Purchasing

Bulk buying of fuel, parts, and supplies reduces unit cost.

Risk-Bearing

Diversification across routes and services mitigates risk exposure.

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Diseconomies of Scale in SriLankan Airlines

Communication Problems

Global teams suffer delays and miscommunication, impacting efficiency.

Coordination Issues

Complex scheduling causes operational inefficiencies.

Bureaucracy

Decision-making slows down in large, state-owned firms.

Employee Demotivation

Staff feel disconnected, affecting morale and productivity.

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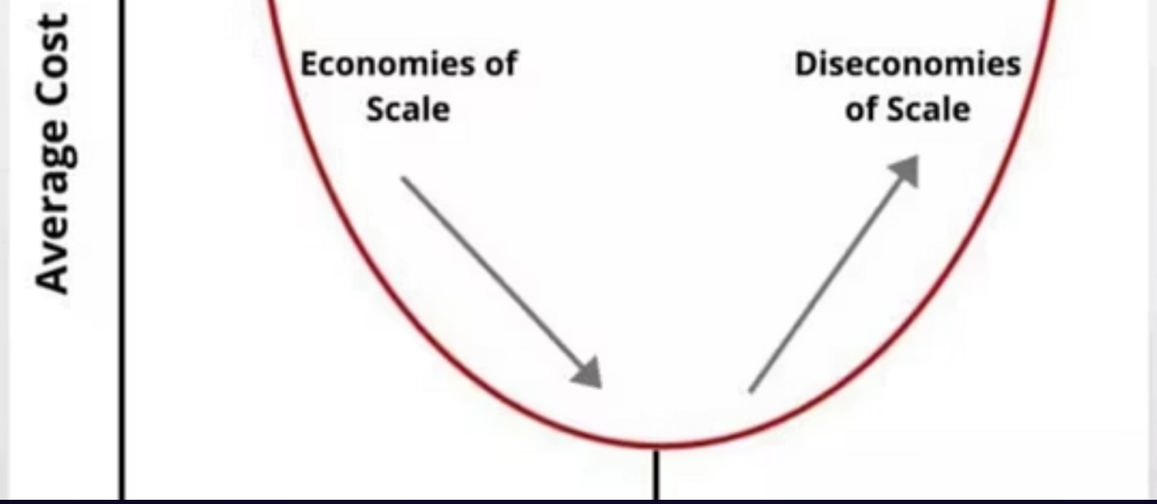

Visualizing Economies and Diseconomies of Scale

The U-shaped LRAC curve illustrates cost behavior: costs fall with economies of scale until the minimum efficient scale is reached, then rise due to diseconomies.

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Evaluation and Conclusion

- Economies of scale drive cost advantage and global competitiveness.
- Excessive growth without control triggers diseconomies, reducing profitability.
- Emirates exemplifies effective scale management; SriLankan struggles with inefficiencies.
- Balancing growth and managerial capacity is crucial for sustainable success.

> **Takeaway:** Scale alone is insufficient—strong leadership and management are vital to harness benefits and prevent downsides.

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